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MICHAEL RODAK, JR., CL

IN THE

Supreme Court of the United States

OCTOBER TERM, 1972.

No. 72-1124

HYDROCRAFT, INC., AN OHIO CORPORATION, PAUL W. SCHLOSSER, AN INDIVIDUAL, AND EDWIN H. DRATH, AN INDIVIDUAL,

Petitioners,

vs.

PANTHER PUMPS & EQUIPMENT COMPANY, INC., AN ILLINOIS CORPORATION,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

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vs.

PANTHER PUMPS & EQUIPMENT COMPANY, INC., AN ILLINOIS CORPORATION,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

Petitioners (hereafter referred to collectively as Hydrocraft) pray that a writ of certiorari issue to review the Judgment of the United States Court of Appeals for the Seventh Circuit entered on October 24, 1972.

OPINIONS BELOW.

The opinion of the United States Court of Appeals for the Seventh Circuit, for which review is sought, is reported at 468 F. 2d 225, 175 U. S. P. Q. 577 (7th Cir. 1972) and is

printed in the Appendix hereto at A. 1-16. The only part of the opinion relevant to this petition is at A. 3-6. There was no opinion at the trial court level.

JURISDICTION.

Jurisdiction of this Court is invoked under 28 U. S. C. § 1254(1).

The judgment of the Court of Appeals was entered on October 24, 1972. A timely Petition For Rehearing was denied on November 16, 1972.

QUESTIONS PRESENTED.

1. What are the guidelines for judicially reviewing a jury's legal conclusion on patent validity?

2. Can a Court of Appeals decline to judicially review a legal conclusion on patent validity when the conclusion was made by a jury rather than by a trial judge?

3. Is there a lower standard of judicial review on the legal question of patent validity when the question is decided by a jury rather than by a trial judge?

STATUTE INVOLVED.

United States Code, Title 35, § 103.

"Conditions for patentability; non obvious subject matter.

A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having

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ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made."

STATEMENT OF THE CASE.

This is a patent infringement suit brought by respondent Panther Pumps & Equipment Co., Inc. (Panther) against petitioners Hydrocraft et al., alleging infringement of two U. S. Patents, Nos. 3,254,845 and 3,367,270.

The case was tried to a jury at the demand of Panther.

The ultimate legal question of patent validity was submitted to the jury. The trial court refused to submit to the jury special interrogatories directed to the factual determinations underlying the legal conclusion on validity and refused to give the jury peremptory instructions.* On the ultimate legal issue of validity, that issue itself was the *only* question submitted to the jury (A. 16).

The jury concluded that the patent claims were valid but gave no expression to the underlying factual determinations which this Court has held must be made as a basis for the legal conclusion on validity.**

On appeal, petitioners argued that, in reviewing the jury's legal conclusion of patent validity, the Court of

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* *i.e.*, an instruction that the jury should return one verdict if the facts are found one way and another verdict if the facts are found otherwise (A. 5, 17).

** *Graham* v. *John Deere Co.*, 383 U. S. 1, 17 (1966). These factual determinations are directed to obviousness under 35 U. S. C. § 103, and consist of:

(1) the scope and content of the prior art;

(2) the level of ordinary skill in the art; and

(3) the differences between the patent claims and the prior art.

Appeals was required to make its own independent legal conclusion on validity, including obviousness under 35 U. S. C. § 103, in order to determine whether the proper legal standard was applied by the jury, and that, in doing so, it had to base its legal conclusion on factual determinations of the type set forth by this Court in *Graham* v. *John Deere Co.*, 383 U. S. 1, 17 (1966).

Because the trial court refused to submit special interrogatories of the type described and refused to give peremptory instructions, petitioners argued that there was a complete absence of the factual determinations necessary to enable appellate review in accordance with *Graham* guidelines.

Because there were no factual determinations, of the type required by *Graham*, petitioners further argued that the Court of Appeals could not review the legal conclusion on patent validity under the *Graham* guidelines; and we requested that the case be remanded for the required factual determinations. The request was ignored.

Further, petitioners separately argued that there was a procedural error arising from the refusal of the trial court to submit to the jury special interrogatories from which the required factual determinations could have been obtained.

In its opinion, the Seventh Circuit acknowledged that the jury's legal conclusion on patent validity was subject to review by it and that, in making such a review, the *Graham* guidelines are to be followed (A. 4-5). The Seventh Circuit further held (A. 5-6) that the *Graham* guidelines can be followed without requiring special interrogatories because the factual determinations, on

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which a *Graham*-type review must be based, can be presumed from peremptory-type jury instructions (none of which were present here). The Seventh Circuit declined to consider the refusal of the trial court to submit peremptory-type instructions to the jury as a procedural error because, in the view of the Seventh Circuit, petitioners did not expressly raise it as such, prior to oral argument (A. 6, n. 10).

Having disposed of the procedural issues, and having held that the absence of special interrogatories did not preclude it from reviewing the legal conclusion of validity under the *Graham* guidelines (A. 5), it was then incumbent upon the Seventh Circuit to make the review which petitioners had argued it ultimately had to make.

However, no such review was made, nor could it have been because the factual determinations required as a basis for such a review were completely absent.*

In a Petition For Rehearing, petitioners pointed out to the Seventh Circuit that it had failed to make *any* judicial review of the jury's legal conclusion on patent validity, and we requested that the court do so or take such steps (*e.g.*, remand) as would enable it to do so. Our petition was denied without comment (A. 18). There was no remand.

Thus, without stating any reason for its unprecedented action, the Seventh Circuit has simply declined to review the disputed legal issue of validity.

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* As indicated in the Seventh Circuit's opinion, there were only two possible sources for such factual determinations: (1) answers to special interrogatories or (2) presumptions from peremptory-type jury instructions (A. 5-6); and neither was present here (A. 5, 17).

REASONS FOR GRANTING THE WRIT.

A. There Is Uncertainty and Confusion as to How a Court Should Judicially Review a Jury's Legal Conclusion on Patent Validity.

Prior to this case, no court has defined how the required *Graham* guidelines, for judicially reviewing the legal question of patent validity, can be applied to a jury verdict on validity. As a result there is uncertainty and confusion, as evidenced by the Seventh Circuit's complete failure to conduct any review at all, even after acknowledging that it was supposed to review in accordance with *Graham* guidelines. The Seventh Circuit simply did not know how to proceed.

This case was no isolated incident. The consensus among Federal judges is that patent cases tried to a jury are "a mess":

> "I have heard of them from my colleagues and all they said, that it was a mess. I haven't heard of a single judge in this district, or any district in the United States who thought it made sense to have a jury trial in a patent case."*

Guidance by this Court is sorely needed.

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* Statement in open court by Judge Hubert Will, in *Reiffin* v. *Heath Company*, Civil Action No. 72 C 1843 (N. D. Ill.) (Transcript of Proceedings of December 20, 1972, p. 15).

B. The Seventh Circuit's Decision Emasculates This Court's Requirement That the Courts Apply a Uniform Standard in Judicially Reviewing the Legal Question of Patent Validity.

C. The Seventh Circuit's Decision Creates a Lower Standard of Judicial Review on the Legal Question of Validity When the Question Is Decided by a Jury Than When it Is Decided by a Trial Court.

Questions of patent validity, including the question of obviousness, are legal questions calling for conclusions of law. *Graham* v. *John Deere Co.*, 383 U. S. 1, 17 (1966). The question of patent validity is a matter of great public interest, *Lear, Inc.* v. *Adkins*, 393 U. S. 653, 670, 674 (1969); *Blonder-Tongue Labs.* v. *University Foundation*, 402 U. S. 313, 343 (1971); and this public interest requires that, in resolving the question of patent validity, a correct and uniform standard of review be applied by the courts. *Graham*, 383 U. S. at 18.

To promote a uniform standard from court to court and from case to case, this Court has required that, in determining the legal question of obviousness, there must first be three underlying factual inquiries:

(1) the scope and content of the prior art;

(2) the level of ordinary skill in the art;

(3) the differences between the patent claims and the prior art;

Graham, 383 U. S. at 17; and this Court has held that these requirements must be strictly observed. *Graham*, 383 U. S. at 18; *Anderson's-Black Rock* v. *Pavement Salvage Co.*, 396 U. S. 57, 62 (1969).

The *Graham* and *Anderson's* opinions reflect the safeguards this Court has constructed to protect the public interest in patent matters. Such safeguards are especially appropriate on the question of patent validity because, as recognized by Judge Learned Hand in *Harries* v. *Air King Prods. Co.*, 183 F. 2d 158, 162 (2d Cir. 1950), the issue of patent validity is "as fugitive, impalpable, wayward, and vague a phantom as exists in the whole paraphernalia of legal concepts. . . . If there be an issue more troublesome, or more apt for litigation than this, we are not aware of it."

Such safeguards become even more important in patent cases tried to a jury because courts have noted the extreme difficulties to be encountered in instructing the jury (A. 6) and the doubtful ability of jurors with only ordinary experience to comprehend the complex issues (A. 16-17) and to reach a correct conclusion. *General Tire & Rubber Co.* v. *Watkins*, 331 F. 2d 182, 197-98 (4th Cir. 1964).

In *non*-jury cases, where *some* of the required factual determinations were unavailable for use by the appellate courts in reviewing the legal conclusion on obviousness, the Appellate Courts, including the Seventh Circuit, have remanded to have such determinations made. *Cloud* v. *Standard Packaging Corp.*, 376 F. 2d 384, 391-92 (7th Cir. 1967); *Ramirez* v. *Perez*, 169 U. S. P. Q. 321 (5th Cir. 1971); *Republic Molding Corp.* v. *B. W. Photo Utilities*, 319 F. 2d 347, 351-52 (9th Cir. 1963); *Yavitch* v. *Seewack*, 323 F. 2d 561, 562-63 (9th Cir. 1963).

In this *jury* case, *all* the required factual determinations were absent, thereby totally preventing the Court of Appeals from making the required judicial review on validity; nevertheless the Seventh Circuit refused to remand to have

such determinations made, thereby precluding a judicial review on validity.

Not only is the decision of the Seventh Circuit contrary to the decisions of this Court in *Graham* and *Anderson's* and to the decisions of Appellate Courts in other circuits, but, also, it is contrary to decisions of even the Seventh Circuit in non-jury cases.

The uniformity of judicial review, which this Court intended when it laid down the required guidelines in *Graham*, has been flouted. The practical effect of the Seventh Circuit decision is to completely eliminate a judicial review on validity when that legal conclusion is made by a jury.

As one Federal judge has noted:

> ". . . I don't understand how the Court of Appeals can be expected to give as careful consideration to the results of a patent case where the jury decided for the plaintiff or for the defendant, no findings of fact, no conclusions of law, no opinion, as they can when they have got a fairly detailed determination of the trier of facts as to how he came to the conclusion he did."*

In *Graham*, this Court observed that there was "a notorious difference between the standards applied by the Patent Office and by the courts." 383 U. S. at 18; and it was against the background of this observation that this Court laid down the strict guidelines to which the courts must adhere in judicially reviewing the validity of a patent.

Since *Graham*, courts following the *Graham* guidelines have declared invalid the vast majority of patents subjected to judicial review.**

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* Judge Hubert Will in *Reiffin* v. *Heath Company*, Civil Action No. 72 C 1843 (N. D. Ill.) (Transcript of Proceedings of December 20, 1972, p. 16).

** Over 70% in the first four years following *Graham*, based on cases reported in United States Patent Quarterly.

In contrast to the courts, a jury is inclined to rubber-stamp the Patent Office's determination on validity. In the same post-Graham period in which courts were declaring *invalid* over 70% of judicially reviewed patents, juries were declaring *valid* 100% of the patents on which they decided the legal question of patent validity, and in each such instance the jury's legal conclusion was reversed by a court judicially reviewing it.*

The basis for this discrepancy is readily apparent. When a juror is confronted with a patent, he is subject to psychological intimidation by the imposing appearance of the Letters Patent itself, with its blue ribbon and red seal carrying the imprimatur of the United States of America. Moreover, unlike courts, jurors are not inclined to overrule a sovereign act of the executive branch of the United States government. This is something totally outside their experience. These are all the more reason for strict adherence to the *Graham* guidelines in judicially reviewing the jury's legal conclusion on patent validity, rather than dispensing with them, as did the Seventh Circuit.

If the Seventh Circuit decision here is allowed to stand, patentees with patents of questionable validity and who would never dare subject their patents to a judicial review under *Graham* guidelines, will be asserting their patents against the public and demanding jury trials secure in the knowledge that their patents will be subjected to the lower standard of judicial review created by the Seventh Circuit decision; and the uniformity, which this Court intended to construct with the *Graham* guidelines, will be effectively emasculated.

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* Based on cases reported in United States Patent Quarterly.

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CONCLUSION.

The public interest requires that the legal question of patent validity be subjected to the scrutiny of judicial review in accordance with prescribed guidelines. This Court has defined how these guidelines are to be applied to judicial review in non-jury cases; but, prior to this case, no court has described how these guidelines can be applied to judicial review in jury cases. The result, in a jury case, is uncertainty, confusion, a lower standard of invention and a lower standard of review, even no review at all. Guidance is sorely needed.*

Respectfully submitted,

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* The problem here is so simple and the solution so clear as to render this case readily susceptible to summary disposition; viz., remand the case to the Seventh Circuit with instructions to remand to the trial level for the purpose of having the trial level make the factual determinations necessary to enable a judicial review in accordance with *Graham* guidelines, something which no court at any level has thus far done in this case.

APPENDIX.

IN THE UNITED STATES COURT OF APPEALS

For the Seventh Circuit

September Term, 1972 — September Session, 1972

No. 71-1125

PANTHER PUMPS & EQUIPMENT CO., INC.,
Plaintiff-Appellee,

vs.

HYDROCRAFT, INC., PAUL W. SCHLOSSER, and EDWIN H. DRATH,
Defendants-Appellants.

Appeal from the United States District Court for the Northern District of Illinois, Eastern Division.

No. 67-C-201.

Richard B. Austin, Judge.

Argued September 15, 1972—Decided October 24, 1972

Before HASTINGS, *Senior Circuit Judge,* and PELL and STEVENS, *Circuit Judges.*

STEVENS, *Circuit Judge.* A jury found one claim in each of two patents[1] owned by plaintiff valid and infringed by defendants' paint spray unit and awarded damages of $150,000 against the corporate defendants and $5,000 against each of the two individual defendants.

1. Claim 23 of Patent No. 3,254,845 relating to "fluid power transfer apparatus" issued on June 7, 1966; and claim 19 of Patent No. 3,367,270 issued on February 6, 1968. Both patents issued to Panther Pumps & Equipment Company, Inc., as assignee of Paul W. Schlosser.

This appeal raises six separate issues: (1) whether the court erred as a matter of law or abused its discretion by refusing to submit 32 special interrogatories to the jury; (2) whether the court permitted the jury to find infringement of a dependent claim after ruling that the claim from which it depends is not infringed; (3) whether a claim on an apparatus designed to avoid overheating by means of "cavitation cooling" can be infringed by a pump which operates at an increased temperature on standby; (4) whether the fact that one of plaintiff's licensees agreed not to contest the validity of the patent is a "misuse" which forecloses any relief against infringers; (5) whether the damage award against the corporate defendant is excessive; and (6) whether separate recovery against the individual defendants is proper. Except for the last point, we find no merit in defendants' appeal. Only a brief statement of the facts is necessary as a preface to our discussion of the issues.

The claims describe a hydraulic pump used to operate a paint spray gun. Spray painting normally is an intermittent operation; frequently, instead of turning off the entire unit when spraying is discontinued, the pump continues to operate on "standby." The patented invention improves the efficiency of standby operation.

The apparatus contains one chamber housing the "driving fluid" and another containing the paint, or "pumped fluid." The standby operation is designed to permit the immediate resumption of spraying without permitting the continued operation of the power source in the driving fluid chamber to cause a substantial buildup of pressure or temperature when the gun is not spraying paint. In the prior art, overheating of the driving fluid was avoided by recirculation of that fluid through bulky auxiliary equipment which included heat exchange apparatus such as a relatively large cooling tank. Much of that auxiliary

equipment may be eliminated by the use of the patented invention which takes advantage of the cooling effect which occurs when liquid is evaporated. By creating a partial vacuum, or "cavitation," in the driving liquid chamber, some of the liquid vaporizes and produces "caviation cooling." Some of the bulk and inefficiency of prior art pumps is thereby obviated.

Schlosser and Draft, the two individual defendants, are former employees of the plaintiff. Schlosser conceived the patented invention and assigned it to plaintiff while still in plaintiff's employ. Subsequently, he, Drath, and a third party organized the defendant corporation and in due course developed the infringing models which are manufactured and sold by the corporate defendant. This simple history, stressed repeatedly during the trial, may explain plaintiff's unusual decision to demand a jury trial in a patent case.

I.

Defendants challenge the manner in which the case was submitted to the jury. Defendants do not argue that it was error to submit either the entire case or any specific issue to the jury.[2] The contention is not that the jury was permitted to decide questions of law; rather, it is argued that in view of the way the jury verdict was reached, it is impossible for a reviewing court to determine whether the three-step analysis required by *Graham* v. *John Deere Co.*, 383 U. S. 1, 17, was properly made.

As defendants phrase their argument, "The Legal Conclusion On Patent Validity Must Be Reversed For Failure To Give Verbal Expression To The Required Factual De-

2. All issues relating to validity and infringement were treated as issues of fact and submitted to the jury with four special interrogatories. The special interrogatories asked whether each of the two claimed patents were valid and whether they were infringed.

terminations."[3] Defendants argue that "without such findings, there is no way for a reviewing court to determine whether the correct legal standard was applied."[4]

Unquestionably, the issue of validity is a question of law. Moreover, as this court squarely held after considering the matter *en banc*, the issue of obviousness is also a question of law. *Armour & Co.* v. *Wilson & Co.*, 274 F. 2d 143, 151-157 (7th Cir. 1960). But we also concluded in *Armour* that "the rules governing the trial of patent cases are no different than in other types of civil litigation, and further, that the scope of our review on appeal follows the same pattern." *Id.* at 157.[5]

In a patent case, as in any other case tried to a jury, questions of law are for the court and questions of fact are for the jury.[6] Our rules do not contemplate that a jury may be asked to make the kind of detailed findings of fact which Rule 52(a) of the Federal Rules of Civil Procedure requires of a judge who sits without a jury. Therefore, if defendants are, in effect, arguing that such findings must be made by a jury in a patent case, the argument is unacceptable.

In the normal jury trial, allocation between judge and jury of their respective decisional responsibilities may

3. Appellants' brief, p. 17.

4. *Id.* at 16

5. In stating the question before the *en banc* court in that case, Judge Hastings also pointed out that "it can hardly be resolved in such abstract terms limited to patent litigation. It can better be considered in the light of our appellate review of civil litigation generally." 274 F. 2d at 151.

6. We note that both parties and the court confused issues of fact with issues of law. For example, defendants' requested special interrogatory number 27 reads as follows:

> "27. If the answer to Interrogatory No. 26 is 'no', would the claimed invention of U. S. Patent No. 3,367,270 have been obvious to one skilled in the art of piston-diaphragm pumps and who had all the prior art before him, including British Simpson Patent No. 887,774?"

be accomplished by the use of special interrogatories or special verdicts, or by the court's instructions to the jury before it returns a general verdict. Which method is appropriate in a particular case is a matter to be determined by the wise discretion of the trial court in the circumstances of the particular litigation before it. When only two or three narrow issues of fact, such as the date of invention or perhaps the date of first public sale, determine the issue of patent validity, it may be entirely appropriate to submit special interrogatories to the jury. But if, as in this case, one party contends that as many as 32 separate fact questions must be resolved, the trial judge certainly may consider it inappropriate to use the special interrogatory procedure.[7]

In this case, the trial judge was not required, as a matter of law, to submit special interrogatories to the jury, and we hold that he did not abuse his discretion in refusing to do so.

This holding does not mean, as defendants contend, that the legal conclusion on patent validity may not be reviewed under the *John Deere* guidelines whenever a jury returns a general verdict. As in any other jury trial, the court's rulings on questions of law are subject to review. If the ultimate issue of validity depends on subsidiary fact questions, it is the court's duty to instruct the jury that it should return one verdict if the facts are found one way and a different verdict if the facts are found otherwise.[8] In such event, as in other cases tried to a jury, the reviewing court will presume that the disputed matters of fact have been resolved favorably to the

7. The trial judge made it clear that he thought the use of 32 special interrogatories would confuse the jury. A. 59 (quoting transcript of June 17, 1970, at 19).

8. Of course, if there are no disputed fact issues affecting validity, the court may simply instruct the jury that the patent is either valid or invalid.

prevailing party in accordance with the trial judge's instructions.

The task of giving error-free instructions in a patent case may indeed be extremely difficult.[9] But we are not asked in this case to consider whether the instructions to the jury were improper in any respect. We therefore have no occasion to express any opinion about the adequacy of the instructions as a whole, or any specific instruction which may have been given over the objection of the losing party.[10]

We therefore find no merit in the attack which appellants have made on the procedure followed by the trial judge in submitting this case to the jury.

II.

Each of the infringed claims depends from a broader claim. Thus, claim 23 of the '845 patent reads:

> "23. A fluid power transfer apparatus substantially as set forth in claim 22, said prime mover being a pump, and said variable load material being a paint spray gun."

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9. Presumably this is only one of the many reasons why members of the Patent Bar have wisely avoided jury trials in patent litigation. "Most patent cases are tried to the court. In fiscal 1968, 1969, and 1970, the total number of patent cases going to trial and the number of patent cases going to juries were, respectively: 1968—131, 2; 1969—132, 8; and 1970—119, 3. Annual Reports, 1968-1970, Table C-8." *Blonder-Tongue Laboratories, Inc.* v. *University Foundation*, 402 U. S. 313, 336.

10. No argument directed at the form of the instructions has been advanced by appellants. Indeed, prior to oral argument the instructions were not even made a part of the record on appeal. Four days after argument, appellants filed a motion to amend the record by the addition of the instructions. We have granted that motion. However, we refuse to consider any issues raised for the first time after oral argument, particularly since appellants' belated attack on the instructions amounts to little more than a general invitation to review the record in search of error.

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Claim 22, in turn, depends from claim 1 of the '845 patent,[11] and claim 19 of the '270 patent depends from claim 12.[12]

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11. Claims 22 and 1 of patent '845 read as follows:

"22. A fluid power transfer apparatus substantially as set forth in claim 1 including a variable load material in combination with said housing, and wherein said movable means is a prime mover for moving said variable load material, said drive fluid is a liquid disposed between said prime mover and said variable load comprising relatively incompressible liquid means interposed between said prime mover and said variable load material and means responsive to variations of the variable load material being driven for controlling a conditions establishing driving and non-driving relationships of said prime mover and said variable load material, said non-driving relationship being characterized by cyclic vaporizing and condensing of said liquid whereby to limit horsepower consumption of said prime mover."

"1. A fluid power transfer apparatus including a housing defining chamber, a driving fluid in said chamber, said fluid having reversible vapor and liquid phases, and movable means for alternately applying and removing pressure forces to and from said fluid to cause reversal between said phases."

12. Claims 19 and 12 of the '270 patent read as follows:

"19. The liquid driven diaphragm fluid pump of claim 12 wherein the reciprocating piston comprises a power means for driving a variable capacity load of pumped liquid, a driving liquid disposed between said reciprocating piston and said variable capacity load of pumped liquid, and automatically activated means responsive to the demand of said load for controlling the consumption of power of the prime mover."

"12. In a liquid driven diaphragm fluid pump of the character described wherein the diaphragm has limiting positions of movement in the pump housing, a reciprocating piston in said housing for driving a mass of liquid for driving said diaphragm, means for controlling the quantity of the liquid in said housing comprising, a source of driving liquid, liquid supply valve means in liquid communication between said source and the mass of liquid, means for biasing said supply valve means to closed position and being opened by relatively low liquid pressure, liquid vent valve means in liquid communication with the mass of liquid and liquid low pressure outlet for said vent valve means, said vent valve means being biased to closed position and being opened by pressure exerted by the driving liquid when said exerted pressure exceeds the pressure of the pumped fluid by a predetermined degree of pressure, and valve means on the pumped fluid side of the diaphragm for controlling the delivery of pumped fluid and

It is clear, as defendants argue, that a product which did not infringe claim 22 of the '845 patent could not infringe claim 23. Thus, if the court made a final adjudication of noninfringement of claims 1 and 22 of the '845 patent and claim 12 of the '270 patent, such an adjudication would foreclose recovery for infringement of the claims in suit.

Defendants contend that the district court's direction of a verdict against plaintiff on all claims except 23 of '845 and 19 of '270 should be so construed. The record clearly establishes, however, that the trial judge merely intended to preclude recovery on any claim except insofar as it was incorporated by reference in claims 23 and 19. Thus, to the extent that infringement of claims 1 and 22 of the '845 patent was an essential element of plaintiff's proof of infringement of claim 23, the judge's ruling was not intended to foreclose that element of plaintiff's case. We do not construe the judge's action, as explained in the colloquies which preceded his direction of a verdict on all claims except 23 and 19, portions of which are set forth in the margin, as an adjudication of noninfringement of the broader claims incorporated by reference in the infringed claims.[13]

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including a closable pumped fluid port, said control valve means, when closed, causing operation of said vent valve means at one limiting position of the diaphragm."

13. On the day before plaintiff rested, the following occurred:

"The Court: Well, I mean, let's simplify it ultimately. You are relying on 19 by virtue of the fact 19 embraces 12 and to the extent that it embraces 12, right?

"Mr. Petherbridge: Yes.

"The Court: And the other patent, 23, to the extent that it embraces 22, and 22 embraces 1?

"Mr. Petherbridge: Right.

"The Court: By reference. It is a reference.

"Mr. Petherbridge: Right, so that you have a complete claim, and the claim here then in the suit—the first patent in suit—Claim 23 is a combination claim embracing all of the elements set forth in 21, 22 and 23." A. 165.

(Continued on Next Page)

If the defendants' interpretation of the court's directed verdict were correct, there would have been no occasion for defendants to spend an entire week of trial putting in their defense. They would have asked for and received a directed verdict on claims 23 and 19. That they did not lends support to our conclusion. We find no merit in defendants' argument on appeal that the judge's direction of a verdict on all claims except 23 and 19 should foreclose recovery for infringement of the two claims he obviously intended to preserve.

III.

Defendants correctly point out that "cavitation cooling" is an element of the patented invention even though those words do not appear in the claims. Defendants adduced evidence indicating that the temperature of the fluid in their pump increases from about 68° to 124° during stand-by operation. Since the operation resulted in heating the fluid, it is argued either (a) that a patent which requires "cooling" cannot have been infringed, or (b) that if

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The next day, when plaintiff completed its case, this colloquy occurred:

"The Court: What are the motions?

"Mr. Shulman: We move for a directed verdict, first of all, on all claims of the -845 patent except claim 23, which defendant has conceded—

"The Court: I mean with the exception that 23 embraces 22 and 1.

"Mr. Shulman: It embraces them by reference, but 22 by itself and 1 by itself, they are not asserting, is that right?

"Mr. Petherbridge: For the purposes of this trial only, we are asserting the infringement of that composite claim.

"Mr. Shulman: It is only one claim.

"The Court: In regard to the -845 patent you are only asserting Claim 23.

"Mr. Petherbridge: Yes.

"Mr. Susman: As it incorporates by reference.

"The Court: That is what the issue is in regard to from now on." A. 166.

"heating" is construed as infringing the "cooling claim," the claim is invalid for vagueness.

We regard these arguments as little more than a play on words. As we understand the "cooling" concept, whether by cavitation or by circulation through a heat exchanger, it merely involves the removal of some heat that would otherwise cause a higher temperature. Conceivably, without cavitation cooling, the temperature of the liquid in defendants' pump during the standby operation would increase much more than it does; if so, the system tended to avoid overheating; we believe minimizing heating is "cooling" within the meaning of the patent specifications.[14] We find no merit in the contention that a cooling system must necessarily cause a temperature decline.

IV.

On June 14, 1967, plaintiff granted a license under the '845 patent to Lake Erie Machine Company (LEMCO). LEMCO is not a party to this litigation and the position it may occupy in any relevant market is not indicated by the record. The LEMCO license agreement contains the following provision:

> "A. During the life of this Agreement or any extension or continuation thereof, LEMCO agrees not to contest the validity of PANTHER Patent Number 3,254,845 or any continuation, divisions or reissues thereof or any corresponding foreign patents, provided however that no royalties shall become payable under this Agreement on subject matter of claims after a finding of invalidity of such claims by any competent court of final Appellate Jurisdiction."

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14. As plaintiff's expert testified, a fan is "cooling" an automobile radiator even though its temperature may be rising as a car is being driven. See Tr. 1127.

In *Lear, Inc.* v. *Adkins*, 395 U. S. 653, decided in 1969, the Supreme Court held that a licensee is not estopped to challenge the validity of a patent; in view of that holding, the "no contest" provision in the LEMCO license is plainly unenforceable.[15] Defendants would therefore have us conclude that such a provision in a license is a "misuse" of the patent which forecloses recovery of damages for infringement by a non-licensee.

A fair evaluation of defendants' argument requires us to identify two different lines of authority. The first is "the series of decisions in which the Court has condemned attempts to broaden the physical or temporal scope of the patent monopoly." *Blonder-Tongue Laboratories, Inc.* v. *University Foundation*, 402 U. S. 313, 343. It is this line of cases in which the "misuse" doctrine developed. "A second group of authorities encourage authoritative testing of patent validity." *Id.* at 344. Although the Court explained that the *Lear* opinion relied on both lines of authority, it expressly stated that its "holding that licensee estoppel was no longer tenable was rooted in the second line of cases eliminating obstacles to suit by those disposed to challenge the validity of a patent." *Id.* at 345. In our opinion neither of these two lines of cases justifies the application of the "misuse" doctrine in this case.

We have recently recognized the force of the policy of encouraging authoritative testing of patent validity. *Business Forms Finishing Service, Inc.* v. *Glowiak*, 452 F. 2d 70 (7th Cir. 1971). That policy, however, is not served by a rule which enables an infringer to escape liability without challenging the validity of a patent.

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15. Plaintiff does not dispute this proposition. Note also the Court's comment on the provision in the *Lear* license requiring payment of royalties by the licensee until the patent is held invalid:

> "The parties' contract, however, is no more controlling on this issue than is the State's doctrine of estoppel, which is also rooted in contract principles." 395 U. S. at 673.

The policy underlying the misuse doctrine is designed to prevent a patentee from projecting the *economic* effect of his admittedly valid grant beyond the limits of his legal monopoly.[16] Misuse of the patentee's economic monopoly no doubt would have made the "no contest" clause in the LEMCO license unenforceable even before *Lear* was decided, but the cases limiting the manner in which a patentee may exploit his monopoly contain no suggestion that the existence of such a clause should itself be considered a "misuse."

Although the Supreme Court has unequivocally condemned the use of a patent as a beachhead from which competition in unrelated lines of commerce may be assaulted, it has also recognized that a patentee has a right to a full monopoly return on the invention which he has discovered and disclosed to the public.[17] It is his right to that return which provides the incentive for invention and disclosure which the entire patent system is designed to encourage. A fair appraisal of the policy considerations which underlie the patent system itself, in our view, makes it inappropriate to preclude enforcement of a valid patent against an infringing non-licensee simply because an unenforceable provision has been included in a patent license agreement.

The case would, of course, present a different issue if either the license provision or the patentee's exploitation of his patent produced economic consequences raising

16. See *Mercoid* v. *Mid-Continent Investment Co.*, 320 U. S. 661, 680 (Mr. Justice Jackson dissenting). See also the cases cited in *Blonder-Tongue Laboratories, Inc.* v. *University Foundation*, 402 U. S. 313, 344 n. 40, particularly *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488.

17. An early precursor of the *Lear* holding recognized not only that it is "important to the public that competition should not be repressed by worthless patents," but also "that the patentee of a really valuable invention should be protected in his monopoly." See *Pope Mfg. Co.* v. *Gormully*, 144 U. S. 224, 234.

serious questions under the antitrust laws. Such questions were present in *United States* v. *Singer*, 374 U. S. 174,[18] and were raised in *Bendix Corporation* v. *Balax, Inc.*,[19] 421 F. 2d 809, 819-821 (7th Cir. 1970), but are not present here.[20] We hold that the "no contest" clause in the LEMCO license, though unenforceable under *Lear*, does not constitute the kind of "misuse" of the patent which forecloses recovery of damages from an unlicensed infringer.

V.

The jury assessed damages of $150,000 against the corporate defendant. Defendant contends that this award was excessive.

Plaintiff's evidence indicated that its exclusive licensee paid a royalty of $75 per machine and that defendant sold 2,641 infringing machines. Plaintiff therefore argued that

18. Defendants rely heavily on the footnote in Mr. Justice White's concurring opinion, 374 U. S. at 200, as indicating that the subsequent decision in *Lear* should have been anticipated by plaintiff when the LEMCO license was executed. That argument, assuming its validity, does not affect our analysis of the misuse issue. In the *Singer* case, the court found a violation of the Sherman Act involving an agreement between competitors to exclude Japanese machines from the American market and to assist each other in a collective endeavor to obtain the broadest possible patent monopoly.

19. The counterclaim in *Bendix* alleged that a network of restrictive sales agreements "smothered most competition" in 75% of the swaging tap market. Without deciding the sufficiency of the allegation of a Sherman Act violation or "the relevance, if any, of *Lear*," we decided that the antitrust issues "should be first presented to the trial court for its consideration." 421 F. 2d at 820-821.

20. Defendants argue that the clause exceeds the limit of the monopoly grant because it precludes a challenge to "any continuation, divisions, or reissues," as well as to the '845 patent itself. But the license granted to LEMCO also broadly covered "patent extensions, reissues, and renewals and any patents issuing thereon . . ." and the no contest commitment terminated with the expiration of the license. See PX-69. Defendants make no claim that plaintiff has violated the antitrust laws.

it should recover at least $198,000 ($75 x 2,641). The jury's award was about 75% of that amount.

Defendant argues that the $75 negotiated rate was for an exclusive license; that its machines sold for a much lower price than the licensee's; and that a reasonable royalty should not exceed 5%, whereas the $75 rate applied to its sales would amount to 22%. Plaintiff replies that the percentages are misleading because different levels of distribution may be involved and, in any event, the statute merely makes the reasonable royalty a minimum measure of damages.[21]

No question is raised about the form of the trial judge's instructions on the damage issue. The question for us is not what the damage award should be, but rather whether the amount awarded by the jury is supported by the record. We conclude that it is.

VI.

The jury assessed damages of $5,000 against each of the individual defendants. All of the infringing pumps, however, were manufactured and sold by the corporate defendant. The individual defendants participated in the infringement in their capacity as officers and agents of the corporation. There is no suggestion in the record that the corporation is not financially responsible or that the individuals derived any direct benefit from the infringement.

The individual liability of managing officers of a corporation for acts of infringement committed by the corporation under their general direction was considered in

21. 35 U. S. C. § 284 provides, in part:

"Upon finding for the claimant the court shall award the claimant damages *adequate to compensate* for the infringement, *but in no event less than a reasonable royalty* for the use made of the invention by the infringer, together with interest and costs as fixed by the court. . . ." (Emphasis added.)

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depth in *Dangler* v. *Imperial Machine Co.*, 11 F. 2d 945, 946-948 (7th Cir. 1926).

"Respecting the liability of officers of a corporation for its infringements of letters patent, the authorities are not in accord. The weight of authority, it seems, denies such liability in the ordinary case. That is to say, if the officers act merely as officers, they are not liable jointly with the corporation. It is only when the officers act outside the scope of their official duties that they become liable. * * * There are, however, numerous authorities that hold the managing officers liable for damages committed by the corporation in case of infringements. The enforcement of this liability is seldom sought, except in case of insolvency of the corporation.

"These latter holdings are on the theory that the corporation commits the tort only under the direction of the managing officers, and therefore these officers, including the directors who authorize the manufacture and sale of the infringing devices, are liable.

* * * * *

"The latter view seems to have the support of the text writers. Robinson on Patents, § 912; Walker on Patents, §§ 410-412. This court has heretofore taken the position first announced, namely, that the officers are not liable unless they act outside the scope of their official duties. Cazier v. Mackie-Lovejoy Mfg. Co., 138 F. 654, 71 C. C. A. 104; Reed v. Cropp Concrete Mach. Co., 225 F. 764, 141 C. C. A. 90.

* * * * *

"After due consideration of the various authorities, as well as the reasons back of the two positions, we adhere to the Cazier v. Mackie-Lovejoy Mfg. Co. decision, and hold that, in the absence of some special showing, the managing officers of a corporation are not liable for the infringements of such corporation, though committed under their general direction. The uncertainty surrounding the questions of validity and infringement make any other rule unduly harsh and oppressive.

> "It is when the officer acts willfully and knowingly—that is, when he personally participates in the manufacture or sale of the infringing article (acts other than as an officer), or when he uses the corporation as an instrument to carry out his own willful and deliberate infringements, or when he knowingly uses an irresponsible corporation with the purpose of avoiding personal liability—that officers are held jointly with the company. * * *"

We adhere to *Dangler* and find no "special showing" in this record to support an award of damages against the individual defendants. The damage recovery against the corporate defendant will adequately compensate the plaintiff for the acts of infringement shown by the evidence.

The judgment against the individual defendants is reversed; the judgment against the corporate defendant is affirmed. Costs shall be taxed against the corporate defendant.

* * * * *

[19] Transcript of June 17, 1970

The Court: * * *

Now we get down to the— * * * —instructions, and, first of all, I am not going to give your 32-item special interrogatory. I am going to give two special interrogatories, one on the question of validity, answer yes or no, and I am going to give them one on the issue of infringement, yes or no.

Those are going to be the only special interrogatories, and you may except to my refusal to give your 32-count interrogatory with the yes or noes in it. I feel certain that that would so confuse—so much more confuse this jury, which I am convinced is thoroughly confused at the

present time, that it would just compound the problem that is before them.

* * * * *

[20] Many of these instructions are peremptory. They wind up directing verdicts for either the defendant or the plaintiff, depending on who submitted the instruction, and, of course, that's thoroughly condemned.

* * * * *

[34] Mr. Shulman: I know, but you say if you find the invention to meet these three requirements, then you must find the patent valid. And that's not so, because those three requirements can be present and something else can be absent, and the patent is invalid.

All I object to is the last sentence of 9.

The Court: Well, since the last sentence makes it a peremptory instruction, and I don't give peremptory instructions, I am just going to strike the last sentence.

* * * * *

[35] Mr. Shulman: Everything starting with the words "and in the lack of such," that's a peremptory instruction.

The Court: That's right.

"Defendants have the burden of showing, by clear and convincing evidence, that the patents in suit do not meet this requirement."

Then I will strike the last part of that sentence.

Mr. Petherbridge: We are learning new words, Judge, "peremptory" and—

The Court: Well, you don't have enough jury cases. If you had to follow IPI in some of these cases, you would know what the Courts say about peremptory instructions.

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UNITED STATES COURT OF APPEALS

For the Seventh Circuit

Chicago, Illinois 60604

November 16, 1972.

Before

HON. JOHN S. HASTINGS, SR., *Circuit Judge,*

Hon. WILBUR F. PELL, JR., *Circuit Judge,*

Hon. JOHN PAUL STEVENS, *Circuit Judge,*

PANTHER PUMPS & EQUIPMENT COMPANY, INC.,
Plaintiff-Appellee,

No. 71-1125 *vs.*

HYDROCRAFT, INC., ET AL.,
Defendants-Appellants.

Appeal from the United States District Court for the Northern District of Illinois, Eastern Division.

(67 C 201)

On consideration of the petition for rehearing filed in the above-entitled cause,

It Is Hereby Ordered that the petition for rehearing in the above-entitled appeal be and the same is hereby *denied.*